

Keynote Address to the Air Force Energy Forum on Coal-to-Liquid Fuel
By U.S. Senator Jim Bunning
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Thank you Secretary Wynne. I appreciate the invitation to be here today to discuss the development of an assured, domestic fuel supply for our military.

Coal-to-liquid fuel may sound like a new technology by the way it is talked about in the press, but it has a very long history. Pioneered by the Germans during World War Two and refined by the South Africans during the last few decades, the coal-to-liquid process is a mature technology that is ready for commercialization.

The challenge for America is to leverage the private investment required for these large, expensive plants. U.S. investors remember the last time synthetic fuels were promoted in the 1970s, and remember the losses they took as oil prices collapsed in the 1980s. The scale of investment, uncertainty of oil prices, and complicated environmental permitting process have prevented the industry from taking root in the United States.

That is why I am proud the Air Force has emerged as a first mover on this technology. The testing program currently underway is an example of Air Force leadership. By certifying synthetic fuels for the B-52 bomber, we have started a process that I hope will lead to synthetic fuel use in all Air Force planes, as a single battlefield fuel and by commercial airlines.

The results of these tests so far are nothing short of outstanding. We already knew that these fuels are nearly zero-sulfur, very low in N.O.X., and low in particulate matter. But we are learning new benefits. For example, the lower-burn temperature of synthetic fuels reduces the heat signature of jet engines.

But more significantly, this technology represents a secure, domestic fuel source. The American economy is too reliant on foreign oil – and our military is no exception. Coal-to-liquid fuel will provide a safety net for the military to ensure a stable fuel supply regardless of the global politics of oil.

Let me now discuss the Coal-to-Liquid Fuel Promotion act I wrote and introduced with Senator Barack Obama. This bill targets the three main areas the government can help push this technology into commercialization.

First, this bill addresses the need to pull together the investors and the billions of dollars needed to build a C.T.L. plant. It expands and enhances the Department of Energy loan guarantee program included in the Energy Policy Act we passed in 2005.

It also provides a new program of matching loans to address funding shortages for front-end engineering and design. The loans are capped at \$20 million and must be matched dollar-for-dollar by non-Federal money.

Second, this legislation will fundamentally alter the economics of building C.T.L. plants. It will expand the investment tax credit and expensing provisions enacted in the Energy Policy Act of 2005, providing a 20% tax credit valued at up to \$200 million for each of the first 10 C.T.L. plants. It also extends the fuel excise tax credit that was passed in the last Highway Bill from 2009 to 2020. The current provision will expire long before the first plant is even operational. This extension will provide a meaningful timeframe for coal-to-liquid plants to benefit from the same tax incentives we offer renewable fuel and hydrogen fuel.

Third, this bill provides the Department of Defense the funding to purchase, test, and integrate these fuels into the military. It authorizes a study on coal-to-liquid fuel storage and inclusion in the Strategic Petroleum Reserve.

I think the most important part of my legislation to discuss today is the long-term contract authority for the military. This provision is essential to our national security.

My bill would extend existing contract authority for up to 25 years. It does not make sense to prevent the military from engaging in long-term contracts. I believe the Department of Defense should engage in the same kind of contracts as private companies. While I believe congressional intent is clear on this issue, I would like to expand my thoughts on long-term contracts in three areas.

First, my provision to allow the Department of Defense to engage in long-term contracts or to assist in the development of coal-to-liquid facilities is not an industrial policy.

The military right now is engaged in a comprehensive effort to adopt biofuels, which have included significant cost increases compared to conventional fuel and supports domestic industry. Yet this policy has been praised by some of the same people who express concerns about coal-to-liquid fuel. The military is the largest single fuel purchaser in the country and of course its support will help develop a domestic synthetic fuel industry. But long-term contract authority is a national security issue that addresses the military's fuel needs.

Second, there are concerns with how the budget would account for a long-term contract. It is unreasonable to ask that the entire value of the contract be appropriated in the first year. Any long-term contract should be amortized over the life of the contract.

Third, there is the market price issue. I believe the D.O.D. should be authorized to pay a premium for a high-quality, clean, domestic fuel. Long-term contracts will provide price certainty and allow for more consistent budgeting. These contracts will vary above and below market prices as world oil prices change during the life of a 25-year contract. I believe this is healthy and normal for long-term contracts.

While my legislation provides 25-year contract authority for the Department of Defense, I look forward to working on these other issues that will make long-term contracts a viable tool for the Air Force.

Finally, I would like to address the legislative forecast for passing my bill in the 110th Congress.

Just last week, the Finance Committee held a hearing on energy tax incentives. Mr. Mike Aimone of the Air Force was able to provide some very good testimony regarding the Air Force program. I am hopeful that I can include the tax portion of my bill in whatever energy tax package the committee puts together.

In the Energy Committee, I am trying to schedule hearings on my bill, but we do not yet have a timetable. I do believe there will be opportunities to include this legislation in several smaller energy bills that the Committee intends to put together throughout the year. And I will look carefully at other legislation, like the Defense Authorization Bill, and try to address the military needs for this fuel as soon as possible.

The Air Force and its synthetic fuels program demonstrate the foresight and leadership America needs to break its addiction to foreign oil. Secretary Wynne, I have enjoyed watching you lead this important effort here at the Air Force. And I have appreciated working with Mr. Bill Anderson and Mr. Paul Bollinger as well as your Senate liaison, Lt. Col. Doug Cato. I hope all of us can help find ways to develop this secure, clean, domestic fuel for our military. Thank you again and I will take a few questions.